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June Monthly Update

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Report Highlights:
The total grain production forecast is increased to 85.3 million metric tons (MMT) due to a 0.9 MMT increase in corn production to 4.9 MMT. Wheat production forecast is increased by 200,000 metric tons (MT) to 51.4 MMT, and barley forecast is decreased by 0.5 MMT to 17.2 MMT. Feed consumption is forecast at 36.2 MMT (35.1 MMT in MY 2007). Export forecast remains unchanged - 14.5 MMT. Grain prices continue to decrease from the mid-April maximum due to expectations of a large crop. The government does not plan to extend prohibitive export tariffs on wheat and barley beyond July 1, 2008.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

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Executive Summary

The total grain production forecast has been increased to 85.3 million metric tons (MMT) due to a 0.9 MMT increase in corn production to 4.9 MMT. The significant increase in the corn production forecast is based on sown area reports. The wheat forecast is increased by 200,000 metric tons (MT) to 51.4 MMT due to good condition of winter wheat in Russia as of the end of May. The barley forecast is decreased by 0.5 MMT to 17.2 MMT. Feed consumption in MY 2008 is forecast at 36.2 MMT (35.1 MMT in MY 2007). The export forecast is 14.5 MMT, including 13.0 MMT of wheat and wheat flour in grain equivalent, 1.3 MMT of barley, and 100,000 MT of corn. Grain prices began to decrease starting mid-April, and the present wheat price in European Russia is 8 percent lower than a month ago. Given the good crop outlook, experts predict further price decreases. Prohibitive wheat and barley export tariffs will not be extended past June 30. The Russian government plans to increase funds for grain procurement interventions to purchase up to 5.5 MMT of grain, and to enlarge the list of procured grains. However, the timing of these interventions has not been announced, and Ministry of Agriculture is not planning, so far, to raise the level of procurement prices above the announced 4,800 – 5,100 rubles per metric ton (for different classes of milling wheat), and 3,900 rubles for milling rye.

2008 Sowing Progress

The Russian Ministry of Agriculture forecasts a minimum 85.0 MMT grain crop in MY 2008. According to Minister Aleksey Gordeyev, food grain production will be 40 MMT. This optimistic forecast is based on good winter grain conditions all over Russia, fast progress of spring grain sowing (in part due to the onset of spring 15 days earlier than usual), and adequate to very good soil moisture levels in European Russia after heavy rains in May. Winter grain will be harvested from approximately 15.3 million hectares (up 2.0 million hectares from last year), and will constitute 40-45 percent of the total grain crop. Some experts are making even more optimistic grain crop forecasts in the range of 86-90 MMT.

As of May 27, 2008, spring grains were sown on 25.5 million hectares (82.4 percent of area planned for spring grains), which is 3.0 million hectares more than on the same date last year. Corn planned for grain was sown on 1.7 million hectares (89.6 percent of planned area), which is 392,000 hectares more than on the same date last year. Corn area expanded practically everywhere in Russia where corn may be harvested for grain: the Southern, Central, Volga Valley, Siberian, and the Far Eastern Federal Districts. Rice has so far been sown on 139,000 hectares, 80 percent of planned area. Rice area is forecast to increase by 10 percent over last year due to expansion of rice area in Dagestan (32 percent increase), in Astrakhan oblast (up 24 percent), in Rostov oblast (16 percent increase), and in Primorskiy kray (50 percent increase). However, these provinces will remain relatively minor rice producers, while the bulk will be grown in Krasnodar kray.

All over Russia spring sowing is underway faster than last year, and farmers are not short of fuel or lubricants, although they estimate that cost of production of grain this year will increase by at least 30 percent due to increased fuel prices. According to the Ministry of Agriculture, rate of sowing in April and May was higher than last year due to good weather, improved equipment, and better supplies of chemicals and fertilizer.

Acquisition of agricultural machinery was up in 2008 by 30-40 percent from last year. Supply of mineral fertilizer increased by 400,000 MT (active ingredient basis) over last year, and reached 1.7 MMT. Some farmers report shortages of quality seed, especially seed corn. The Ministry of Agriculture reports that grain sowing will be finished in a week, a week earlier than last year. Given normal weather conditions in summer, early sowing will result in earlier maturing and thus harvesting of grain, and decreased harvest losses, especially in the Eastern and Northern parts of Russia.

According to the Ministry of Agriculture's report, in some provinces of the Central, Volga Valley and the North-Western Federal Districts winter grain crops are in the stemming stage, while in the provinces of the Southern Federal District the heading of winter grain crops has started. Germination of spring grains in Krasnodar kray is occuring faster than in normal years, and soil moisture is good. In Krasnodar kray harvesting of winter barley is expected to start June 11-12, and of winter wheat June 18.

Trade

Due to the prohibitive wheat export duty, Russia's wheat exports in March and April were very small, and total exports of wheat as grain in the period July 2007-April 2008 were 11.6 MMT. Exports of wheat and meslin flour continued actively, and by the end of April total flour exports reached 303,120 MT, or 424,370 MT in grain equivalent, double the level of MY 2007. Thus, total wheat exports, including flour, in July 2007–April 2008 were 12.02 MMT[1]. Exports of flour will continue in May and June, as domestic grain prices are decreasing. That coupled with reports of adequate remaining wheat stocks will lead millers to continue exporting flour before the new cheaper crop starts coming to the market.

Exports of wheat as grain are not likely until the export duties are lifted, as Russia's wheat, including export duties, is more expensive than the present world market prices for wheat. Thus, total wheat and flour exports in MY 2007 will reach 12.1 MMT, including approximately 0.5 MT of flour in grain equivalent.

Wheat imports are slow. By the end of April Russia imported less than 305,000 MT of wheat and flour. Given the stabilization of wheat supply in the domestic market in May and June, massive imports of wheat are not expected in these months, and the total MY 2007 imports will hardly exceed 400,000 MT. The wheat (including flour in grain equivalent) export forecast for MY 2008 is 13.0 MMT, and wheat imports forecast is 0.5 MMT.

In MY 2008 Russia is forecast to export 1.3 MMT of barley. Barley exports in MY 2007 are estimated at 1.03 MT. In July 2007– April 2008 Russia exported less than 1.02 MMT, with less than 5,000 tons average monthly exports in December –April 2008 after prohibitive export tariffs on barley were introduced. Barley imports in July 2007– April 2008 were 146,700 MT. In the remaining two months Russia may import another 50,000 MT of barley to reach 200,000 MT for MY 2008. Given that Russia continues to develop its own production of malting barley, total barley imports will remain at 200,000 MT in MY 2008.

Corn production is forecast to increase due to expanded corn for grain sown area, and corn imports will decrease in MY 2008 by 30,000 MT to 130,000 MT. In October – April 2008 Russia imported 102,600 MT of corn and total imports in MY 2007 may reach 160,000 MT.

Stocks

Russian Minister of Agriculture Aleksey Gordeyev announced that by the end of MY 2007 (July 1, 2008) grain stocks may be 1.0 MT more than a year earlier, or 11.0 MMT. However, MinAg's methods and sources of data for these estimates are not transparent, and it is difficult to check the accuracy of these estimates. Farmers and agricultural enterprises are not obliged to report their stocks of grain. Besides, it is not clear whether these estimates include grain that will be harvested in June in the south of European Russia. Given the early

[1] Source of export monthly data - SovEcon

harvest, the new grain may add several million metric tons to the July 1, 2008, stocks estimates.

Policy

Grain Export Duties

At a press conference held on May 28, 2008, Minister Aleksey Gordeyev said his ministry does not foresee a necessity to limit grain exports after June 2008, and to extend export duties on wheat and barley, because grain stocks by July 1, 2008 will be higher than last year, grain prices are falling, and 2008 crop prospects are good. According to Minister Gordeyev, grain prices reached a maximum of approximately 10,000 Rubles per metric ton in April 2008, but decreased to 8,500 Rubles in May, and the Ministry of Agriculture foresees a further slide to 6,000 rubles by July 1, 2008[2].

Grain interventions

Recently the Russian Government decided to increase the charter capital of Rosselkhozbank[3] by 31.5 billion Rubles (approximately $1.34 billion), and some portion of these money will increase the banks' funds for the state procurement grain interventions in order to expand purchase of grain, if necessary, to 5.5 MMT.

Meantime, the government continues selling milling wheat and food rye to millers from the state grain intervention fund. At the last sales session held May 28, 2008, wheat Class 3 was sold at prices within 5,500 Rubles to 7,000 Rubles. By May 28, 2008, all food quality rye, Group A, was sold out. The weighted-average intervention selling price of rye was 4,677 Rubles per metric ton, or 20.0 percent higher than the start-up price. By the same date 82 percent of soft milling wheat, Class 3, and 80 percent of soft milling wheat, Class 4, was sold. The weighted-average intervention selling price of wheat, Class 3, was 5,325 Rubles per metric ton, 6.5 percent higher than the start-up price, and weighted-average price of wheat, Class 4, was 4,868 Rubles per metric ton, or 3.6 percent higher than the start-up price[4].

Table 1. Russia: State Intervention Grain Sales, Metric Tons, as of May 28, 2008.

Commodity	Starting Volume	Sales	Remainder
soft milling wheat, Class 3	**1,256,769.964**	1,026,403.000	230,366.964
soft milling wheat, Class 4	**152,470.000**	122,251.000	30,219.000
milling rye, Group A	**42,670.000**	42,670.000	0.000
TOTAL	**1,451,909.964**	1,191,324.000	260,585.964

Source: NAMEX

Prices for purchase of 2008 crop grain for the State Intervention Fund[5] were announced on March 26, 2008, at 5,000 – 5,100 Rubles per metric ton for Class 3 milling wheat, and 4,800

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[2] In April – May 2008, Ruble to $US exchange rate was approximately 23.5 Rubles per $1.
[3] Rosselkhozbank – The Russian Agricultural Bank, a state-owned bank that gives loans to agricultural producers, private farmers and farmers cooperatives at a subsidized interest rate. Rosselkhozbank also finances other activities of the federal government in the sphere of agriculture, including financing of the state grain procurement interventions. www.rshb.ru
[4] Market price maxima at which the grain sales interventions started in October 2007 were set at 5,000 Rubles for milling wheat, Class 3, 4,700 Rubles for milling wheat, Class 4, and 3,900 Rubles for milling rye, Group A.
[5] The government starts buying grain from farmers if the market price is close to or below the procurement price.

– 4,900 Rubles per metric ton for Class 4 milling wheat. Prices for milling rye were set at 3,900 Rubles per metric ton[6]. As of now the Russian Ministry of Agriculture does not intend to increase these levels, although grain producers consider these prices too low, given the prevailing market prices of grain. The Ministry of Agriculture has not settled on timing of the beginning of these procurement interventions, and indicates the decision will be made when the they could better estimate 2008's grain crop, price trends and grain balances.

The government envisions a possibility of expanding the list of procured grains, i.e., including feed quality grains, but no such new list has been specified so far.

Marketing

Grain Futures Trading

In May 2008, Russia's trading of grain futures continued, and as of May 27, the total number of wheat futures contracts reached 1,388, with a value of 1,362 million Rubles. This includes 1,074 million rubles in wheat futures EXW (Ex-Warehouse) and 288 million rubles for FOB, delivery port Novorossiysk. These volumes are not significant, and cannot be compared with the grain futures trading at major world commodity exchanges, but they may help producers to form price targets and to increase the transparency of the Russian market. The membership of the NAMEX's grain section reached 43 and includes grain traders, banks, including Rosselkhozbank, brokers, and processors. Membership is constantly growing.

Table 2. Russia, Results of Grain Futures Trading, as of May 27, 2008.

	Price*				Turnover	
Contract	Open	Low	High	Settle	Total Contracts	Rubles
Futures EXW, Rubles						
- wheat class 3, July 2008	6,354	6,300	8,400	6,950	154	159,387,540
- wheat class 3, September 2008	5,456	4,921	7,260	6,484	169	152,061,845
- wheat class 3, November 2008	6,000	4,985	7,480	4,985	210	224,137,095
- wheat class 4, July 2008	6,640	6,000	8,050	6,900	170	194,134,135
- wheat class 4, September 2008	5,258	4,738	7,137	5,269	161	151,340,800
- wheat class 4, November 2008	6,800	4,816	7,327	4,816	180	192,878,660
Futures FOB, exports	USD	USD	USD	USD		
- wheat, July 2008	345	297	385	327	116	124,155,809
- wheat, September 2008	305	279	357	319	96	85,970,520
- wheat, November 2008	323	290	370	311	82	78,272,749
* Prices do not include VAT						

Source: NAMEX

Grain Prices

Starting mid April, 2008, grain prices have been falling in most Russian economic regions. In European Russia, the major grain exporting region, ruble price EXW of milling wheat decreased by 7.8 percent from April 11 to May 23. The price of Class 4 milling wheat dropped in the same period by 7.5 percent, the price of rye fell by 2.5 percent. Prices of feed quality grain were also decreasing: the price of feed wheat decreased by 7 percent and of feed barley – by 8 percent. In Spring 2007 the price of feed barley remained 15-17 percent lower than that for feed wheat, and these prices will not stimulate farmers to

[6] GAIN report RS8022 Grain Intervention (Procurement) Prices for 2008

increase area sown to spring barley. In Fall 2007, the price of barley almost equaled that for feed wheat, but producers in Southern Russia preferred to sow winter wheat, topdress it, and apply micronutrients, aiming to get milling quality wheat (Class 4), the price of which has always been higher than the price of barley.

Figure 1. European Russia: Prices of Feed Crops, EXW, Rubles per Metric Ton

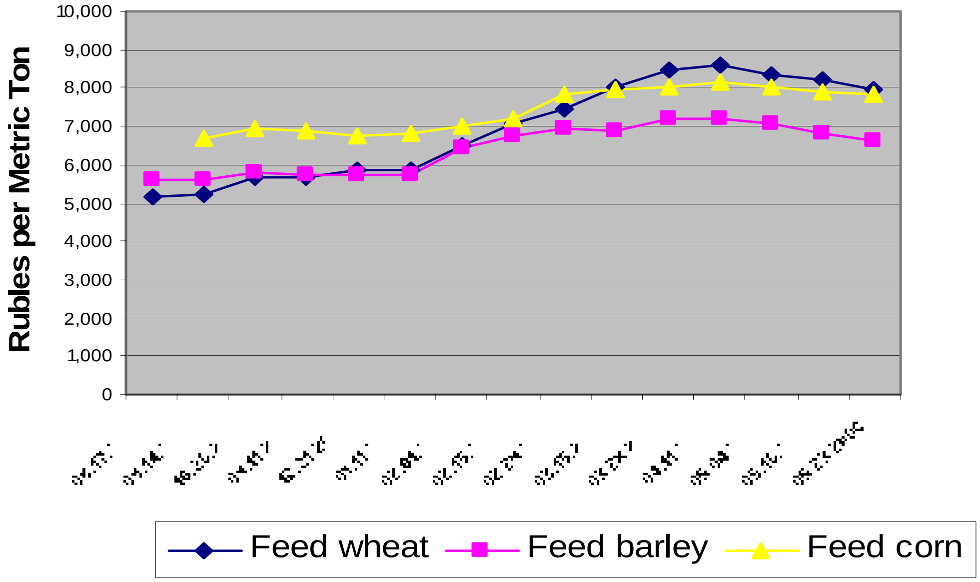

Table 3. European Russia: Grain Prices, EXW, Rubles, U.S. Dollars, 2008.

	Mar. 28	Apr. 4	Apr. 11	Apr. 18	Apr. 25	May 4	May 9	May 16	May 23
	Rubles								
Wheat, milling, Class 3	9,140	9,290	9,310	9,270	9,220	9,185	9,050	8,825	8,590
Wheat, milling, Class 4	8,775	8,990	9,025	8,950	8,890	8,820	8,700	8,565	8,365
Rye, milling, Group A	7,715	7,940	8,015	8,000	8,000	7,970	7,965	7,855	7,820
Feed wheat	8,470	8,540	8,590	8,520	8,445	8,340	8,280	8,215	7,990
Feed barley	7,175	7,215	7,195	7,160	7,120	7,065	6,890	6,800	6,635
Feed corn	8,030	8,115	8,145	8,120	8,080	8,000	7,965	7,905	7,820
	U.S. Dollars								
Wheat, milling, Class 3	389	394	396	395	391	387	380	372	364
Wheat, milling, Class 4	373	381	384	381	377	371	365	361	354
Rye, milling, Group A	328	336	341	341	339	335	334	331	331
Feed wheat	360	362	365	363	358	351	347	346	339
Feed barley	305	306	306	305	302	297	289	287	281
Feed corn	342	344	346	346	342	336	334	333	331

Source: “WJ ProZerno”

PSD Tables

Wheat

PSD Table										
Country	**Russian Federation**									
Commodity	**Wheat**						(1000 HA)(1000 MT)(MT/HA)			
	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Area Harvested	23700	23700	23700	24500	23500	23500	26000	25000	25500	(1000 HA)
Beginning Stocks	3809	3809	3809	2380	2380	2380	2580	2070	2080	(1000 MT)
Production	44900	44900	44900	49400	49390	49400	52000	51200	51400	(1000 MT)
MY Imports	861	861	861	1000	500	400	1000	600	500	(1000 MT)
TY Imports	861	861	861	1000	500	400	1000	600	500	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	49570	49570	49570	52780	52270	52180	55580	53870	53980	(1000 MT)
MY Exports	10790	10790	10790	12000	12100	12100	12500	12800	13000	(1000 MT)
TY Exports	10790	10790	10790	12000	12100	12100	12500	12800	13000	(1000 MT)
Feed Consumption	14100	14100	14100	15400	15500	15200	16000	16000	15400	(1000 MT)
FSI Consumption	22300	22300	22300	22800	22600	22800	23000	22700	22700	(1000 MT)
Total Consumption	36400	36400	36400	38200	38100	38000	39000	38700	38100	(1000 MT)
Ending Stocks	2380	2380	2380	2580	2070	2080	4080	2370	2880	(1000 MT)
Total Distribution	49570	49570	49570	52780	52270	52180	55580	53870	53980	(1000 MT)
Yield	1.89	1.89	1.89	2.02	2.10	2.10	2	2.05	2.02	(MT/HA)

Barley

PSD Table										
Country	Russian Federation									
Commodity	Barley						(1000 HA)(1000 MT)(MT/HA)			
	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Area Harvested	10000	10000	10000	9800	8360	8360	9600	9800	9400	(1000 HA)
Beginning Stocks	873	873	873	1226	1226	1226	776	746	746	(1000 MT)
Production	18100	18100	18100	15650	15650	15650	17000	17700	17200	(1000 MT)
MY Imports	200	200	200	200	200	200	200	200	200	(1000 MT)
TY Imports	200	200	200	200	200	200	200	200	200	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	19173	19173	19173	17076	17076	17076	17976	18646	18146	(1000 MT)
MY Exports	1547	1547	1547	1000	1030	1030	1200	1550	1300	(1000 MT)
TY Exports	1691	1691	1691	1000	1030	1030	1200	1550	1200	(1000 MT)
Feed Consumption	11800	11800	11800	10700	10700	10700	11300	11750	11500	(1000 MT)
FSI Consumption	4600	4600	4600	4600	4600	4600	4600	4600	4600	(1000 MT)
Total Consumption	16400	16400	16400	15300	15300	15300	15900	16350	16100	(1000 MT)
Ending Stocks	1226	1226	1226	776	746	746	876	746	746	(1000 MT)
Total Distribution	19173	19173	19173	17076	17076	17076	17976	18646	18146	(1000 MT)
Yield	1.81	1.81	1.81	1.60	1.87	1.87	1.77	1.81	1.83	(MT/HA)

Corn

PSD Table										
Country	**Russian Federation**									
Commodity	**Corn**						(1000 HA)(1000 MT)(MT/HA)			
	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008	MM/YYYY
Area Harvested	1000	1000	1000	1300	1350	1300	1400	1350	1500	(1000 HA)
Beginning Stocks	144	144	144	175	175	175	225	165	175	(1000 MT)
Production	3600	3600	3600	3950	3955	3950	5300	4000	4900	(1000 MT)
MY Imports	108	108	108	150	150	160	25	150	130	(1000 MT)
TY Imports	108	108	108	150	150	160	25	150	130	(1000 MT)
TY Imp. from U.S.	9	9	9	0	0	0	0	0	0	(1000 MT)
Total Supply	3852	3852	3852	4275	4280	4285	5550	4315	5205	(1000 MT)
MY Exports	77	77	77	50	55	50	100	60	100	(1000 MT)
TY Exports	77	77	77	50	55	50	100	60	100	(1000 MT)
Feed Consumption	3100	3100	3100	3400	3460	3460	4000	3550	4150	(1000 MT)
FSI Consumption	500	500	500	600	600	600	600	545	545	(1000 MT)
Total Consumption	3600	3600	3600	4000	4060	4060	4600	4095	4695	(1000 MT)
Ending Stocks	175	175	175	225	165	175	850	160	410	(1000 MT)
Total Distribution	3852	3852	3852	4275	4280	4285	5550	4315	5205	(1000 MT)
Yield	3.6	3.6	3.6	3.04	2.93	3.04	3.79	2.96	3.27	(MT/HA)

Photographs

"Yermak" winter wheat, near the town of Yegorlykskaya, Rostov Oblast, planted October 2007, photographs taken May 24, 2008.

“Donskoy Mayak” winter wheat, near the town of Yegorlykskaya, Rostov Oblast, planted October 2007, photographs taken May 24, 2008.

Relevant Reports

RS8033 Grain and Feed / May Monthly Update
http://www.fas.usda.gov/gainfiles/200804/146294513.pdf

RS 8026 Grain and Feed / Russia Begins Wheat Futures Trade
http://www.fas.usda.gov/gainfiles/200804/146294261.pdf

RS8024 Grain and Feed / Annual
http://www.fas.usda.gov/gainfiles/200804/146294162.pdf

RS8022 Grain and Feed / Grain Intervention (Procurement) Prices for 2008
http://www.fas.usda.gov/gainfiles/200803/146294105.pdf